

Message Text

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ACTION EB-11

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TO SECSTATE WASHDC 8949

INFO AMEMBASSY BONN

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TAGS: EAGR, ETRD, GATT, EC, FR

SUBJECT: FRENCH VIEWS ON ARTICLE XXIV:6 TOBACCO
NEGOTIATIONS

REF: PARIS 10923

SUMMARY: WHEREAS FRENCH ARE PREPARED TO ACCEPT COMMUNITY
OFFER OF 55 UNITS OF ACCOUNT ON TOBACCO OFFER TO U.S.,
THEY ARE OPPOSED TO LARGER REDUCTION. THEY WOULD LIKE
TO SAVE ELIMINATION SPECIAL EC TARIFF SUBHEADING ON CIGAR
WRAPPER AND EXPENSIVE CIGARETTE TOBACCO FOR RECIPROCAL
CONCESSION FROM U.S. IN MTN. ANOTHER CONCERN IS THAT
PREFERENTIAL POSITION OF SEVERAL FORMER COLONIES WHICH
SUPPLY TOBACCO WILL BE ERODED AND REACTION OF THESE
COUNTRIES TO REDUCTION WILL BE NEGATIVE. ALSO, FRENCH
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DOMESTIC TOBACCO AND CIGARETTE INDUSTRY IS OPPOSED TO

CONCESSIONS, ESPECIALLY AT TIME WHEN THERE IS GROWING CONCERN OVER COMPETITION IN FRENCH MARKET FROM AMERICAN-BLEND CIGARETTES MANUFACTURED IN COMMUNITY AND WHEN FRENCH CONSUMER TASTES SHOWING STRONGER PREFERENCE FOR LIGHTER, AMERICAN BLENDS. END SUMMARY.

1. GOF OFFICIALS HAVE BEEN TOLD REPEATEDLY SINCE MID-1973 OF THE IMPORTANCE TO THE U.S. OF A SATISFACTORY OFFER ON TOBACCO IN THE ARTICLE XXIV:6 TALKS. OFFICIALS IN THE MINISTRIES FOR FOREIGN AFFAIRS, AGRICULTURE AND FINANCE (DREE) ARE FULLY AWARE THAT TOBACCO IS ONE OF THE MOST CRITICAL ITEMS FOR U.S. IN THIS NEGOTIATION. RESPECT TO THE EC COMMISSION'S LATEST XXIV:6 OFFER. PRIVATELY, HOWEVER, GOF OFFICIALS HAVE STATED THEY ARE PREPARED TO ACCEPT COMMISSION PROPOSAL OF 14 PERCENT DUTY AND 55 UA, PROVIDED THAT THIS WILL WRAP UP THE XXIV:6 ISSUE. FRENCH ALSO EXPECT CONCESSIONS ON U.S. COGNAC DUTIES AS PART OF SUCCESSFUL XXIV:6 DEAL. THEY ARE OF COURSE AWARE OFFER OF 55 UA UNACCEPTABLE TO U.S.

3. THERE APPEAR TO BE SEVERAL REASONS FOR NEGATIVE FRENCH POSITION RE FURTHER EC CONCESSION ON TOBACCO. ONE IS THEIR VIEW THAT EC BASICALLY OWES U.S. NOTHING ON 24:6 ISSUE. ANOTHER VIEW IS THAT GOF WOULD LIKE TO SAVE CONCESSION ON TOBACCO FOR MTN, THEREBY GETTING SOMETHING IN RETURN. ONE OFFICIAL REMARKED THAT GOF POSITION COMPARABLE TO U.S. APPROACH ON COGNAC, I.E., OFFERING A SMALL CONCESSION NOW PLUS A WILLINGNESS TO SETTLE ISSUE LATER. GOF OF COURSE AWARE THAT MOST OF ITS EC PARTNERS WISH TO ELIMINATE TARIFF ITEM 24.01A (CIGAR WRAPPER AND CIGARETTE TOBACCO EXCEEDING 280 UA). IT IS APPARENTLY WILLING, DESPITE OPPOSITION FROM TOBACCO INTERESTS, TO GO ALONG WITH SUCH PROPOSAL, ONCE MTN GET UNDERWAY, IN EXCHANGE FOR CONCESSIONS FROM U.S.

4. ALTHOUGH GOF APPEARS PREPARED TO DO AWAY WITH ITEM 24.01A AND PUT ALL CIGARETTE AND CIGAR TOBACCO UNDER 24.01B (23 PERCENT DUTY SUBJECT TO MAXIMUM 33 UA), IT IS NOT COMPLETELY HAPPY WITH PROSPECT. ONE REASON IS CONCERN FOR THE PREFERENTIAL POSITION OF SEVERAL FORMER LIMITED OFFICIAL USE

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COLONIES WITH WHOM GOF DESIRES TO MAINTAIN CLOSE, SPECIAL RELATIONSHIP. LARGEST SUPPLIERS TO FRENCH MARKET ARE CONGO, MALAGASY, CENTRAL AFRICAN REPUBLIC AND CAMEROUNS, WITH LATTER TWO SUPPLIERS OF CIGAR WRAPPER. THESE FORMER COLONIES ARE GRANTED ZERO DUTY ON TOBACCO; HOWEVER ELIMINATION TARIFF ITEM 24.01A WILL DECREASE PREFERENTIAL ADVANTAGE THESE COUNTRIES FOR SUCH TOBACCOS. FOR THIS REASON THERE IS EFFORT ON PART OF SOME GOF

MINISTRIES AND PRESSURE FROM FRENCH PLANTERS IN THESE COUNTRIES TO BLOCK SUCH A CONCESSION.

5. RESISTANCE FROM DOMESTIC GROWERS AND THE FRENCH TOBACCO MONOPOLY (SEITA) IS ANOTHER CAUSE FOR GOF CONCERN. THE FRENCH TOBACCO INDUSTRY FEELS THREATENED

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BY GROWING CONSUMER PREFERENCE FOR HIGH-QUALITY AMERICAN BLENDS, BY DECLINING NUMBER OF GROWERS AND RESULTANT LOSS IN POLITICAL INFLUENCE. FACT THAT AMERICAN BLEND CIGARETTES PRODUCED WITHIN EC IS ALSO CAUSE FOR CONCERN,

ESPECIALLY IN LIGHT OF EC MOVES TO HARMONIZE EXCISE TAXES ON CIGARETTES. IN ADDITION SEITA WAS ACCUSED BY EC COMMISSION OF DISCRIMINATION AGAINST FOREIGN TOBACCO PRODUCTS AND, AS RESULT, WAS FORCED TO CHANGE SOME REGULATIONS FOR PRODUCTS ORIGINATING WITHIN THE EC.

6. LOWER DUTIES ON QUALITY U.S. CIGARETTE TOBACCO WILL REDUCE PRICE DIFFERENTIAL BETWEEN FRENCH-MADE DARK TYPE CIGARETTES AND U.S. BLENDS MANUFACTURED IN COMMUNITY AND ACCELERATE TREND TOWARD LATTER. THIS IS OBVIOUSLY LIMITED OFFICIAL USE

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BAD NEWS FOR AN INDUSTRY WHICH ALREADY FEELS CERTAIN MALAISE IN THE FACE OF CHANGING TASTES AND EC COMPETITION. REACTION HAS BEEN TO INSIST ON MAXIMUM PROTECTION ATTAINABLE, AND ANY EFFORT TO LESSEN SUCH PROTECTION WILL BE RESISTED. GOF, FOR ITS PART, HAS INDICATED INFORMALLY THAT IT IS NEVERTHELESS PREPARED TO ACCEPT REDUCTION TO 55 UA AT THIS TIME DESPITE INDUSTRY OPPOSITION AND TO PUT ITEM 24.01A ON NEGOTIATING TABLE IN MTN.

7. COMMENT: U.S. HAS ALREADY MADE KNOWN ITS VIEW THAT FRENCH READINESS TO ACCEPT 55 UA IS INSUFFICIENT TO RESOLVE 24:6 QUESTION. IT SHOULD BE NOTED THAT IN 24:6 TOBACCO DISCUSSIONS HERE FRENCH HAVE SHOWN TENDENCY TO DEFER TO ITALIANS. IF FRENCH ARE TO BE MOVED ON TOBACCO BELOW 55 UA IT WILL PROBABLY BE NECESSARY TO BUDGE ITALIANS FIRST. ONE GOF OFFICIAL INDICATED THAT FRENCH WOULD RECONSIDER ITS POSITION ONLY IF ITALIANS CHANGED THEIR POSITION. FRENCH, HOWEVER, WOULD LIKE TO SAVE SOME OF ITEM 24.01A FOR MTN. THUS, UNLESS AN ARRANGEMENT CAN BE FOUND TO KEEP SOME OF ITEM 24.01A FOR A US/EC NEGOTIATION IN MTN, EVEN FAVORABLE ITALIAN ACTION BELOW 55 UA MIGHT NOT BE SUFFICIENT TO BRING FRENCH ALONG.
IRWIN

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